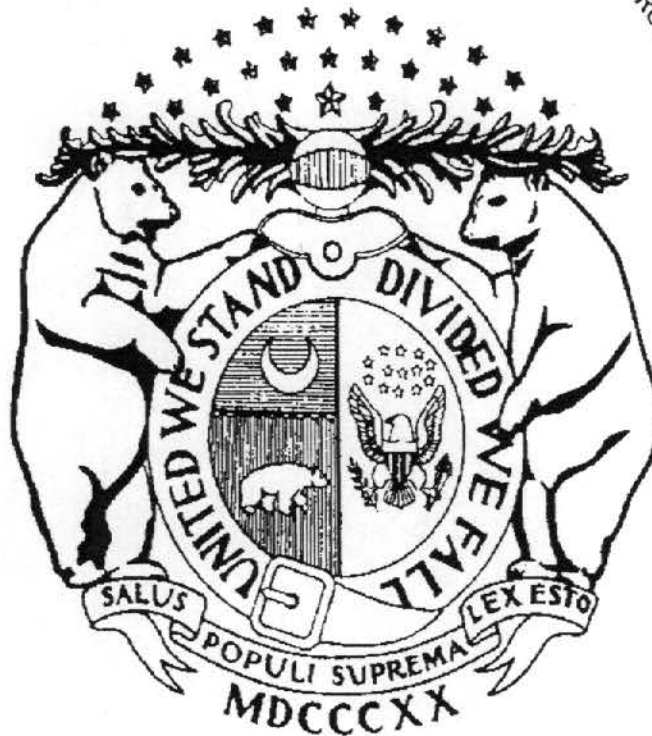


REPORT OF THE  
FINANCIAL EXAMINATION OF  
OSAGE COUNTY FARMERS MUTUAL  
AID ASSOCIATION

AS OF  
DECEMBER 31, 2007



**FILED**  
MAR 04 2009  
DIRECTOR OF INSURANCE,  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

## TABLE OF CONTENTS

<u>Subject</u>	<u>Page</u>
SALUTATION	1
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures	1
Comments - Previous Examination Report	2
HISTORY:	
General	3
Management	3
Conflict of Interest	4
Corporate Records	5
FIDELITY BOND AND OTHER INSURANCE	5
EMPLOYEE BENEFITS	5
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	5
Policy Forms & Underwriting	6
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	6
REINSURANCE:	
General	6
Assumed	7
Ceded	7
ACCOUNTS AND RECORDS	7
FINANCIAL STATEMENTS:	
Analysis of Assets	9
Liabilities, Surplus and Other Funds	9
Statement of Income	10
Capital and Surplus Account	10
NOTES TO THE FINANCIAL STATEMENTS	11
EXAMINATION CHANGES	11
GENERAL COMMENTS AND/OR RECOMMENDATIONS	11
SUBSEQUENT EVENTS	11
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	12

December 5, 2008  
Koeltztown, Missouri

Honorable Kip Stetzler, Acting Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

### **OSAGE COUNTY FARMERS MUTUAL AID ASSOCIATION**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 2418 County Road 521, Koeltztown, Missouri 65048, telephone number (573) 728-6528. This examination began on September 22, 2008, and was concluded on September 24, 2008, and is respectfully submitted.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2002, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2003, through December 31, 2007, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

#### **Procedures**

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.

### **Comments-Previous Examination Report**

The comments, recommendations, and notes of the previous examination report dated December 31, 2002, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

#### **Corporate Records**

*Comment:* It was recommended that the amendment of the Company Bylaws be approved by the membership and documented in the membership meetings.

*Company Response:* The amended and restated Bylaws were approved at a special membership meeting on December 11, 2006.

*Current Findings:* The current Bylaws have been properly approved as recommended.

#### **Fidelity Bond and Other Insurance**

*Comment:* It was recommended that the Company obtain sufficient directors and officers liability insurance for the protection of the Company and its management.

*Company Response:* The Company obtained director and officer liability insurance.

*Current Findings:* The Company currently carries liability insurance for its directors and officers.

#### **Territory and Plan of Operation**

*Comment:* It was recommended the Company adopt written agreements with its agents that include a time limit for the delivery of fully completed applications to the home office and state who is responsible for obtaining errors and omissions coverage for the agents.

*Company Response:* The Company has not instituted written agreements with its agents.

*Current Findings:* The Company continues to operate without written agreements with its agents (see the Territory and Plan of Operations section of this report).

#### **Accounts and Records**

*Comment:* It was recommended the Company reconcile the Company's checkbook register to the bank statement on a monthly basis, and maintain an outstanding check listing.

*Company Response:* The Company currently performs monthly checkbook reconciliations.

*Current Findings:* The current reconciliations performed by the Company appear adequate.

## HISTORY

### General

The Company was originally organized and incorporated in January 1890, as Farmers Mutual Aid Association of Crawford and Adjoining Townships. The Company currently operates as Osage County Farmers Mutual Aid Association.

The Company has a Certificate of Authority dated July 1, 1991, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is renewed annually.

### Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the second Monday in September at the home office of the Company or at such other place and time as may be designated by the Board of Directors. Special meetings of the members may be called at any time, and shall be called upon petition of one-fourth of the members. Eight members shall constitute a quorum at any membership meeting. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of six members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and the directors are compensated \$80 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2007, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Ben Berhorst, Jr. P.O. Box 117 Freeburg, Missouri	Farmer	2006-2009
Hubert Brune 488 Brune Mueller Lane Meta, Missouri	Farmer	2006-2009
Marlon Stuecken P.O. Box 205 Freeburg, Missouri	Shipping Manager/Farmer	2007-2010

Pat Haller 1195 Highway JJ Freeburg, Missouri	Retired/Farmer	2007-2010
Russell Scheulen 581 Highway DD Loose Creek, Missouri	County Commissioner/Farmer	2005-2008
Larry Sestak 2418 County Road 521 Koeltztown, Missouri	Farmer	2005-2008

The Board of Directors appoints for a term of one year, the officers of the Company. The officers of the Company serving at December 31, 2007, were as follows:

Larry Sestak	President
Ben Berhorst, Jr.	Vice-President
Marlon Stuecken	Secretary
Patrick Haller	Treasurer

### **Conflict of Interest**

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no potential material conflicts were disclosed.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. On September 12, 2005, the membership approved the amended and restated Articles of Incorporation which were put into place in 1998, but never officially approved. The amendments updated language and corrected clerical errors noted in a previous examination. On December 11, 2006, the membership approved amended and restated the Bylaws. The amendment reduced repetition of topics already addressed in the Articles of Incorporation and updated the language in the document.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond providing a limit of liability of \$25,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$25,000 and \$50,000 in coverage.

The Company carries liability coverage for their directors and officers. In addition, each of its agents purchases errors and omissions insurance coverage, the cost of which is reimbursed by the Company.

The Company does not own an office building or any significant personal property, thus property insurance is not applicable.

The insurance coverage appears adequate.

## **EMPLOYEE BENEFITS**

The Company does not have any employees. The operations of the Company are performed by the Company's directors and officers.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operations**

The Company is licensed by the DIFP as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, wind, liability and crop insurance in all counties in the State of Missouri. The Company writes fire, and wind and liability coverages. The Company's policies are sold by 3 licensed agents, who receive \$60 per each policy written.

The Company does not have written agreements with its agents. It is recommended the Company adopt written agreements with its agents that include time limits for the delivery of fully completed applications to the home office and state who is responsible for obtaining errors and omissions coverage for the agents.

### **Policy Forms and Underwriting Practices**

The Company utilizes AAIS policy forms. The policies are renewed annually. Property inspections and adjusting functions are performed by the directors and agents. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

The Company does not have a written policies and procedures manual in place. It is recommended the Company draft and approve a written manual. The manual should address such items as investment policies, underwriting guidelines, inspection and adjusting procedures, job descriptions, employee benefits, conflict of interest, and check signing policies.

### **GROWTH AND LOSS EXPERIENCE OF THE COMPANY**

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessments</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2007	\$1,212,835	\$12,000	\$232,054	\$ 66,613	\$48,711	\$ 79,058	\$127,769
2006	1,100,066	27,000	218,318	89,591	34,543	14,673	49,216
2005	1,030,850	7,000	217,111	77,692	19,479	53,305	72,784
2004	964,631	13,586	201,149	101,872	17,348	53,212	70,559
2003	971,470	59,513	246,533	355,007	25,179	(48,646)	(23,467)

At year-end 2007, 699 policies were in force.

### **REINSURANCE**

#### **General**

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Direct	\$246,533	\$201,149	\$217,111	\$218,318	\$232,054
Assumed	0	0	0	0	0
Ceded	(61,417)	(57,481)	(56,313)	(57,977)	(62,823)
Net	<u>\$185,116</u>	<u>\$143,668</u>	<u>\$160,798</u>	<u>\$160,341</u>	<u>\$169,231</u>



### **Assumed**

The Company does not reinsure other companies.

### **Ceded**

The Company has all of its reinsurance through Cameron Country Mutual Insurance Company (the reinsurer) under a single reinsurance agreement for both property and casualty risks. The per risk excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company retains \$45,000 per risk and the reinsurer's limit is \$100,000. The second layer retention is \$145,000 and the reinsurer's limits are \$150,000 for commercial and confinement risks and \$400,000 for all other risks. The reinsurer's combined per occurrence limit for both layers is \$1,000,000. Risks ceded under the agreement are limited to \$295,000 for commercial and confinement risks and \$545,000 for all other risks. The 2007 premium rate, as a percentage of written premiums, equaled 5.5% for layer one coverage and 2.1% for layer two coverage.

The catastrophe excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company's retention is \$90,000 per occurrence, and the reinsurer's limit is 95% of \$1,000,000 per occurrence. Under the second layer, the Company's retention is \$1,090,000, and the reinsurer's limit is 100% of \$2,000,000. The reinsurer's annual limits are 95% of \$2,000,000 for the first layer and 100% of \$4,000,000 for the second layer. The 2007 premium rate was \$.1602 and \$.1295 per \$1,000 total insurance in force for layers one and two, respectively.

The aggregate excess of loss section of the agreement pertains to property risks. The reinsurer is liable for 95% of losses in excess of 75% of the Company's net written premium, with an annual limit of \$2,000,000. The 2007 reinsurance rate was 3% of written premium.

The contract has a liability quota share section for liability risks. The Company cedes 100% of the liability risks and premium to the reinsurer and receives a 22% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

## **ACCOUNTS AND RECORDS**

The accounting records are maintained by the Company on a cash basis.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2007, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

**ANALYSIS OF ASSETS**  
**December 31, 2007**

Cash on Deposit	\$ 1,212,835
	-----
Total Assets	\$ 1,212,835
	=====

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2007**

Unpaid Losses	\$ 12,000
	-----
Total Liabilities	\$ 12,000
	-----
Guaranty Fund	\$ 150,000
Other Surplus	1,050,835
	-----
Total Surplus	1,200,835
	-----
Total Liabilities and Surplus	\$ 1,212,835
	=====

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2007**

Net Assessments Earned	\$ 169,231
Other Insurance Income	126
Net Losses & Loss Adjustment Expenses Incurred	(56,433)
Other Underwriting Expenses Incurred	(33,866)
	-----
Net Underwriting Income (Loss)	\$ 79,058
	-----
Investment Income	\$ 48,711
Other Income	0
	-----
Gross Profit (Loss)	\$ 127,769
Federal Income Tax	0
	-----
Net Income (Loss)	\$ 127,769
	=====

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2007**

Policyholders' Surplus, December 31, 2006	\$ 1,073,066
Net Income (Loss)	127,769
	-----
Policyholders' Surplus, December 31, 2007	\$ 1,200,835
	=====

## **NOTES TO THE FINANCIAL STATEMENTS**

There were no notes to the financial statements.

## **EXAMINATION CHANGES**

There were no examination changes.

## **GENERAL COMMENTS AND RECOMMENDATIONS**

### **Territory and Plan of Operations (Page 5)**

It is recommended the Company adopt written agreements with its agents that include time limits for the delivery of fully completed applications to the home office and state who is responsible for obtaining errors and omissions coverage for the agents.

### **Policy Forms and Underwriting Practices (Page 6)**

The Company does not have a written policies and procedures manual in place. It is recommended the Company draft and approve a written manual. The manual should address such items as investment policies, underwriting guidelines, inspection and adjusting procedures, job descriptions, employee benefits, conflict of interest, and check signing policies.

## **SUBSEQUENT EVENTS**

The Company's long-time reinsurer, Cameron Country Mutual Insurance Company, ceased offering reinsurance after December 31, 2007. Consequently, the Company placed its 2008 property reinsurance program through intermediary Guy Carpenter & Company, LLC with various reinsurers, and placed its 2008 liability reinsurance program with Cameron Mutual Insurance Company. The coverage afforded under the 2008 reinsurance contracts did not differ significantly from that provided under the 2007 reinsurance program.

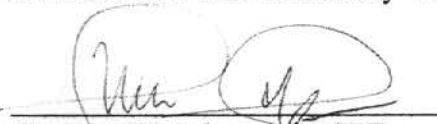
## ACKNOWLEDGMENT

The assistance and cooperation extended by the employees Osage County Farmers Mutual Aid Association during the course of this examination is hereby acknowledged and appreciated.

## VERIFICATION

State of Missouri    )  
                              ) ss  
County of Cole        )

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

  
Shannon W. Schmoeger, CFE  
Financial Examiner  
Missouri DIFP

Sworn to and subscribed before me this 10<sup>th</sup> day of December, 2008.

My commission expires:


May 18, 2012

  
Notary Public



## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

  
Tim Tunks, CFE, CPA  
Examiner In Charge  
Missouri DIFP

Osage County Farmers Mutual Aid Association  
2418 County Rd 521  
Koeltztown, MO 65048

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INSURANCE SOLVENCY  
&  
COMPANY REGULATION

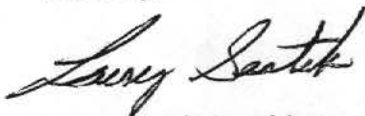
February 26, 2009

Mr. Frederick G. Heese, CFE, CPA  
Chief Financial Examiner & Acting Division Director  
Division of Insurance Company Regulation  
PO Box 690  
Jefferson City MO 65102-0690

Dear Mr. Heese

This letter is in reply to your letter and Draft Report of Examination as of December 31, 2007. I met with the board of directors on February 1, 2009 to review the report. After discussing the examination report and reviewing the recommendations on page 11, the directors agreed to adopt the recommendations listed. This reply may be disclosed in the final report.

Sincerely,



Larry Sestak, President  
Osage County Farmers Mutual Aid Association